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FM SECSTATE WASHDC

TO USMISSION GENEVA

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FOL REPEAT ISLAMABAD 02372 ACTIONSECSTATE DTD 11 MAR.

QUOTE

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E.O. 11652: N/A

TAGS: EFIN, ETRD, GATT, PK

SUBJECT: GATT BALANCE OF PAYMENTS COMMITTEE SCHEDULE

REF: A. GENEVA 211 B. STATE 41590 C. 76 ISLAMABAD 12838

D. 76 ISLAMABAD A-173 E. 76 ISLAMABAD 7557

SUMMARY: ACCORDING TO REF A, PAKISTAN HAD MINI-CONSULTATIONS
IN 1973 AND 1975 WITH FULL CONSULTATIONS IN 1967 AND 1969.
PAKISTAN'S SHORT-TERM EXPORT PROSPECTS HAVE DECLINED BUT
THERE HAS BEEN VERY LITTLE CHANGED IN BALANCE OF PAYMENTS
PICTURE OTHERWISE SINCE 1975, AND LITTLE CHANGE IN IMPORT
RESTRICTION REGIME SINCE 1973, AND OUR EXPECTATION IS THAT
TRENDS IN BOTH AREAS WILL CONTINUE ALONG PRESENT LINES FOR
THE NEXT SEVERAL YEARS. HOWEVER, IMPORTANT CHANGES IN
BOTH BALANCE OF PAYMENTS AND IMPORT RESTRICTION REGIME
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HAVE TAKEN PLACE SINCE THE LAST FULL CONSULTATIONS WERE
HELD. IN VIEW OF APPARENT WASHINGTON DESIRE TO GO OVER
MAJOR CHANGES IN FULL RATHER THAN MINI-CONSULTATIONS,
FULL CONSULTATIONS WOULD SEEM TO BE APPROPRIATE. END
OF SUMMARY.

1. OUR MOST RECENT REPORTS ON BALANCE OF PAYMENTS AND

IMPORT REGULATIONS ARE IN REFS C, D, AND E. FURTHER COMMENTS FOLLOW.

2. BALANCE OF PAYMENTS: THE PRINCIPAL FEATURES OF PAKISTAN'S BALANCE OF PAYMENTS FOR THE PAST THREE YEARS HAVE BEEN A HEAVY TRADE DEFICIT, WITH IMPORTS NEARLY DOUBLE EXPORTS; SUBSTANTIAL AID INFLOWS, SUFFICIENT TO FINANCE THE TRADE DEFICIT; AND A HEAVY AND GROWING DEBT BURDEN. MUCH OF THE TRADE DEFICIT IS DIRECTLY TIED TO SPECIFIC IMPORTS FINANCED BY PROJECT LOANS. OUR ANALYSIS OF THE DEBT OUTLOOK IS GIVEN IN REF D, AND RECENTLY AVAILABLE GOP MATERIAL SUGGESTS THAT WE MAY HAVE UNDER-ESTIMATED INTEREST PAYMENTS FOR THE NEXT FEW YEARS. BOTH THE GOP AND THE EMBASSY EXPECT SIMILAR TRENDS TO CONTINUE FOR THE NEXT FIVE YEARS. WE BELIEVE THAT THE GOP TENDS TO OVERESTIMATE IMPORTS AND EXPORTS, AND TO UNDERESTIMATE HOME REMITTANCES, BUT THESE ERRORS GENERALLY BALANCE OUT, LEAVING US WITH SIMILAR ESTIMATES OF NET BORROWING REQUIREMENTS. OUR UPDATED FIGURES FOR MWE FY/76 BALANCE OF PAYMENTS AND PROJECTIONS FOR FY/77 ARE AS FOLLOWS:

	FY76	FY77
EXPORTS (FOB)	1163	1100
IMPORTS (CIF)	2341	2530
(INSURANCE & FREIGHT)	(210)	(228)
TRADE BALANCE	-1178	-1430
WORKERS' REMITTANCES	350	450
INTEREST PAYMENTS	1*0	180
GRANT AID	126	75
NET OTHER SERVICES	-60	PLUS 50
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LONG AND MEDIUM-TERM LOAN DISBURSEMENTS	996	1050
LONG AND MEDIUM-TERM PRINCIPAL REPAYMENTS	17	169
NET OFFICIAL SHORT-TERM (OF WHICH REPAYMENTS)	(-112)	(-64)
ERRORS AND OMISSIONS	89	-
OVERALL SURPLUS/DEFICIT FINANCED BY:	PLUS 51	1-2
NET IMF	131	79
CHANGE IN RESERVES	PLUS 182	PLUS 7
(YEAR END RESERVES)	(642)	(649)
(DEBT SERVICE TOTAL)	(453)	(413)

3. IMPORT REGIME: IN MAY, 1972, THE GOP INTRODUCED A MAJOR CHANGE IN ITS IMPORT REGULATION POLICY. IN CONSULTATION WITH THE IMF AND THE WORLD BANK CHAIRED AID TO PAKISTAN CONSORTIUM, IT DISMANTLED A CUMBERSOME REGIME WHICH HAD COMBINED A SEVERELY OVERVALUED RUPEE WITH A COMPLICATED NETWORK OF QUOTAS, TARIFFS AND

"BONUS VOUCHERS" AGAINST WHICH SUCCESSFUL EXPORTERS COULD IMPORT GOODS. THE NEW SYSTEM WAS BASED ON WT REALISTIC EXCHANGE RATE - THE VALUE OF THE RUPEE WAS CUT IN HALF - AND A MUCH SIMPLER LICENSING SYSTEM. ALLOWABLE IMPORTS ARE DIVIDED INTO THREE LISTS : (A) THE "FREE LIST," WHICH IS FINANCED FROM FREE FOREIGN EXCHANGE; (B) THE "TIED LIST," RESTRICTED TO FINANCING WITH TIED CREDITS OR BARTER ARRANGEMENTS; AND (C) A SHORT LIST OF ITEMS WHICH ONLY GOVERNMENT-OWNED AGENCIES MAY IMPORT. EACH YEAR, SHORTLY AFTER THE ANNOUNCEMENT OF THE BUDGET, THE GOVERNMENT ANNOUNCES ITS IMPORT POLICY FOR THE YEAR, WHICH MAY INCLUDE CHANGES IN THE COMPOSITION OF THE THREE LISTS AND CHANGES IN TARIFFS. THE POLICY FOR FY/77 IS DESCRIBED IN REF E. FOR THE PAST SEVERAL YEARS, CHANGES IN THE COMPOSITION OF THE LISTS HAVE BEEN IN THE DIRECTION OF GREATER LIBERALIZATION, WITH ITEMS BEING ADDED TO THE FREE LIST. THIS HAS HAPPENED DESPITE THE PRESSURE LIMITED OFFICIAL USE

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OF A CONTINUING HEAVY TRADE DEFICIT. NORMALLY, CHANGES IN THE LISTS REMAIN THROUGHOUT THE YEAR AS ANNOUNCED IN THE IMPORT POLICY, BUT CHANGES IN TARIFFS ARE ANNOUNCED THROUGHOUT THE YEAR. THE MOST COMPREHENSIVE REPORT WE KNOW OF ON THE CURRENT IMPORT REGIME IS IN IMF REPORT SM/76/190, DATED SEPTEMBER 3, 1976 (ECONOMIC REPORT ON PAKISTAN). WE CONSIDER IT ACCURATE. THE IMF HAS PRESSED PAKISTAN TO SPEED UP ITS IMPORT LIBERALIZATION AND THE DOCUMENT ON PAKISTAN'S RECENT STANDBY REQUEST (EBS/77/58) STATES THAT A "MAJOR" REFORM OF THE IMPORT SYSTEM IS IN PREPARATION.

4. WE ARE INCLINED TO THINK THAT IN VIEW OF THE SERIOUS TRADE DEFICIT, PAKISTAN IS WISE IN MOVING SLOWLY IN THIS REGARD. IT SEEMS TO US MORE ADVISABLE PROCEED WITH A GRADUAL LIBERALIZATION WHICH CAN BE MAINTAINED THAN TO TRY TO FORCE THE PACE AND RISK HAVING A BALANCE OF PAYMENTS CRISIS TRIGGER NEW RESTRICTIONS. THE IMF STANBY REPORT SUGGESTED THAT THE IMF MIGHT ALSO BE ENCOURAGING THE GOP TO CONSIDER DEVALUING THE RUPEE. IN RECENT YEARS THE EXPORTS WHICH HAVE DONE WORSE ARE THOSE WHOSE PRICE IS SET BY THE WORLD MARKET (COTTON AND RICE). PRICE-SENSITIVE NON-TRADITIONAL EXPORTS (CARPETS, SPORTING GOODS, ETC.) ARE INCREASING RAPIDLY MOREOVER, A HEAVY PROPORTION OF IMPORTS ARE DEVELOPMENT PROJECT-RELATED, FOOD AND FERTILIZER. IN THESE CIRCUMSTANCES, WHILE A DEVALUATION MIGHT PROVIDE SOME SLIGHT BOOST TO TEXTILE EXPORTS IN THE MEDIUM TERM (ASSUMING CURRENT SUPPLY CONSTRAINTS CAN BE OVERCOME), WE THINK THAT THE BENEFITS TO BE GAINED BY DEVALUING ARE AT BEST MINOR AND THE COSTS IN TERMS OF DOMESTIC PRICES COULD BE

SUBSTANTIAL.

5. WE ASSUME THAT MINI-CONSULTATIONS IN 1973 AND 1975
WENT OVER MUCH OF THIS GROUND. HOWEVER, IN VIEW OF
DEPARTMENT'S APPARENT DESIRE TO COVER MAJOR DEVELOPMENTS
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IN FULL RATHER THAN MINI-CONSULTATIONS, GROWING DEBT
PROBLEM, AND LATEST IMF RECOMMENDATIONS FOR IMPORT
POLICY, FULL CONSULTATIONS WOULD SEEM TO BE APPROPRIATE.
BYROADE

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